

# **ORANGE UNIFIED SCHOOL DISTRICT**

Audit Report

## **COLLECTIVE BARGAINING PROGRAM**

Chapter 961, Statutes of 1975,  
and Chapter 1213, Statutes of 1991

*July 1, 1999, through June 30, 2003*



**STEVE WESTLY**  
California State Controller

April 2005



**STEVE WESTLY**  
**California State Controller**

April 8, 2005

Robert L. French, Ed.D.  
Superintendent  
Orange Unified School District  
1401 North Handy Street  
Orange, CA 92867-4334

Dear Dr. French:

The State Controller's Office audited the claims filed by the Orange Unified School District for costs of the legislatively mandated Collective Bargaining Program (Chapter 961, Statutes of 1975, and Chapter 1213, Statutes of 1991) for the period of July 1, 1999, through June 30, 2003.

The district claimed \$664,300 for the mandated program. Our audit disclosed that \$471,952 is allowable and \$192,348 is unallowable. The unallowable costs occurred because the district overstated salary and benefit costs, and miscalculated contract services costs. The State paid the district \$370,324. Allowable costs claimed exceed the amount paid by \$101,628.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (COSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at COSM's Web site at [www.csm.ca.gov](http://www.csm.ca.gov) (Guidebook link), and obtain IRC forms by telephone at (916) 323-3562 or by e-mail at [csminfo@csm.ca.gov](mailto:csminfo@csm.ca.gov).

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

*Original Signed By:*

VINCENT P. BROWN  
Chief Operating Officer

VPB:JVB/kmm

cc: (see page 2)

cc: Thomas A. Godley  
Assistant Superintendent  
Orange Unified School District  
Joe Sorrera  
Fiscal Director  
Business Services  
Orange Unified School District  
Beth Hunter, Director  
Educational Reimbursement Services  
Centration, Inc.  
William M. Habermehl  
County Superintendent of Schools  
Orange County Department of Education  
Scott Hannan, Director  
School Fiscal Services Division  
California Department of Education  
Arlene Matsuura  
Education Fiscal Services Consultant  
School Fiscal Services Division  
California Department of Education  
Gerry Shelton, Director  
Fiscal and Administrative Services Division  
California Department of Education  
Jeannie Oropeza  
Program Budget Manager  
Education Systems Unit  
Department of Finance

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the claims filed by the Orange Unified School District for costs of the legislatively mandated Collective Bargaining Program (Chapter 961, Statutes of 1973, and Chapter 1213, Statutes of 1991) for the period of July 1, 1991, through June 30, 2003. The last day of fieldwork was May 13, 2004.

The district claimed \$664,300 for the mandated program. The audit disclosed that \$471,952 is allowable and \$192,348 is unallowable. The unallowable costs occurred because the district overstated salary and benefit costs, and miscalculated contract services costs. The State paid the district \$370,324. Allowable costs claimed exceed the amount paid by \$101,628.

## Background

In 1975, the State enacted the Rodda Act (Chapter 961, Statutes of 1975), requiring the employer and employee to meet and negotiate, thereby creating a collective bargaining atmosphere for public school employers. The legislation created the Public Employment Relations Board to issue formal interpretations and rulings regarding collective bargaining under the act. In addition, the legislation established organizational rights of employees and representational rights of employee organizations, and recognized exclusive representatives relating to collective bargaining.

On July 17, 1978, the Board of Control (now the Commission on State Mandates [COSM]) determined that the Rodda Act imposed a reimbursable state mandate upon school districts that was reimbursable under *Government Code* Section 17561.

Chapter 1213, Statutes of 1991, added *Government Code* Section 3547.5, requiring school districts to publicly disclose major provisions of a collective bargaining effort before the agreement becomes binding.

On August 20, 1998, COSM determined that this legislation also imposed a state mandate upon school districts that was reimbursable under *Government Code* Section 17561. The costs of publicly disclosing major provisions of collective bargaining agreements that districts incurred after July 1, 1996, are allowable.

Claimants are allowed to claim increased costs. For claim components G1 through G3, increased costs represent the difference between the current-year Rodda Act activities and the base-year Winton Act activities (generally, fiscal year (FY) 1974-75), as adjusted by the implicit price deflator. For components G4 through G7, increased costs represent actual costs incurred.

The seven components are as follows:

- G1–Determining bargaining units and exclusive representatives
- G2–Election of unit representatives
- G3–Cost of negotiations
- G4–Impasse proceedings
- G5–Collective bargaining agreement disclosure
- G6–Contract administration
- G7–Unfair labor practice charges

*Parameters and Guidelines* establishes the state mandate and defines reimbursement criteria. COSM adopted *Parameters and Guidelines* on October 22, 1980, and last amended it on January 27, 2000. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for mandated programs, to assist local agencies and school districts in claiming reimbursable costs.

## **Objective, Scope, and Methodology**

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Collective Bargaining Program for the period of July 1, 1999, through June 30, 2003.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, not funded by another source, and not unreasonable and/or excessive.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of *Government Code* Section 17558.5. We did not audit the district's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

## **Conclusion**

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, Orange Unified School District claimed \$664,300 for Collective Bargaining Program costs. Our audit disclosed that \$471,952 is allowable and \$192,348 is unallowable.

For FY 1999-2000, the State paid the district \$68,805. Our audit disclosed that \$204,279 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$135,474, contingent upon available appropriations.

For FY 2000-01, the State paid the district \$226,088. Our audit disclosed that \$135,898 is allowable. The district should return \$90,190 to the State.

For FY 2001-02, the State paid the district \$75,431. Our audit disclosed that \$64,152 is allowable. The district should return \$11,279 to the State.

For FY 2002-03, the State made no payment to the district. Our audit disclosed that \$67,623 is allowable, and the State will pay this amount contingent upon available appropriations.

**Views of  
Responsible  
Official**

We issued a draft audit report on February 18, 2005. Joe Sorrera, Fiscal Director, Business Services, responded by e-mail on March 15, 2005, agreeing with the audit results.

**Restricted Use**

This report is solely for the information and use of the Orange County School District, the Orange County Office of Education, the California Department of Education, the California Community Colleges Chancellor's Office, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original Signed By:*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

# Schedule 1— Summary of Program Costs July 1, 1999, through June 30, 2003

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference <sup>1</sup>
<u>July 1, 1999, through June 30, 2000</u>				
Component activities G1 through G3:				
Salaries and benefits	\$ 112,546	\$ 49,951	\$ (62,595)	Finding 1
Materials and supplies	1,864	1,864	—	
Contracted services	91,072	93,736	2,664	Finding 2
Subtotal	205,482	145,551	(59,931)	
Less adjusted base-year costs	—	—	—	
Total increased direct costs, G1 through G3	205,482	145,551	(59,931)	
Component activities G4 through G7:				
Salaries and benefits	28,800	13,017	(15,783)	Finding 1
Materials and supplies	5,978	5,978	—	
Contracted services	28,772	37,602	8,830	Finding 2
Total increased direct costs, G4 through G7	63,550	56,597	(6,953)	
Total increased direct costs, G1 through G7	269,032	202,148	(66,884)	
Indirect costs	4,491	2,131	(2,360)	Finding 1
Total program costs	\$ 273,523	204,279	\$ (69,244)	
Less amount paid by the State		(68,805)		
Allowable costs claimed in excess of (less than) amount paid		\$ 135,474		
<u>July 1, 2000, through June 30, 2001</u>				
Component activities G1 through G3:				
Salaries and benefits	\$ 70,771	\$ 11,741	\$ (59,030)	Finding 1
Materials and supplies	—	—	—	
Contracted services	70,124	70,004	(120)	Finding 2
Subtotal	140,895	81,745	(59,150)	
Less adjusted base-year costs	—	—	—	
Total increased direct costs, G1 through G3	140,895	81,745	(59,150)	
Component activities G4 through G7:				
Salaries and benefits	44,813	9,098	(35,715)	Finding 1
Materials and supplies	155	155	—	
Contracted services	45,393	44,211	(1,182)	Finding 2
Total increased direct costs, G4 through G7	90,361	53,464	(36,897)	
Total increased direct costs, G1 through G7	231,256	135,209	(96,047)	
Indirect costs	3,796	689	(3,107)	Finding 1
Total program costs	\$ 235,052	135,898	\$ (99,154)	
Less amount paid by the State		(226,088)		
Allowable costs claimed in excess of (less than) amount paid		\$ (90,190)		



## Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference <sup>1</sup>
<u>July 1, 2001 through June 30, 2002</u>				
Component activities G1 through G3:				
Salaries and benefits	\$ 23,451	\$ 21,231	\$ (2,220)	Finding 1
Materials and supplies	—	—	—	
Contracted services	37,989	37,449	(540)	Finding 2
Subtotal	61,440	58,680	(2,760)	
Less adjusted base-year costs	—	—	—	
Total increased direct costs, G1 through G3	61,440	58,680	(2,760)	
Component activities G4 through G7:				
Salaries and benefits	10,014	2,013	(8,001)	Finding 1
Materials and supplies	—	—	—	
Contracted services	2,943	2,741	(202)	Finding 2
Total increased direct costs, G4 through G7	12,957	4,754	(8,203)	
Total increased direct costs, G1 through G7	74,397	63,434	(10,963)	
Indirect costs	1,034	718	(316)	Finding 1
Total program costs	\$ 75,431	64,152	\$ (11,279)	
Less amount paid by the State		(75,431)		
Allowable costs claimed in excess of (less than) amount paid		\$ (11,279)		
<u>July 1, 2002 through June 30, 2003</u>				
Component activities G1 through G3:				
Salaries and benefits	\$ 9,973	\$ 1,228	\$ (8,745)	Finding 1
Materials and supplies	600	600	—	
Contracted services	49,072	47,858	(1,214)	Finding 2
Subtotal	59,645	49,686	(9,959)	
Less adjusted base-year costs	—	—	—	
Total increased direct costs, G1 through G3	59,645	49,686	(9,959)	
Component activities G4 through G7:				
Salaries and benefits	4,497	546	(3,951)	Finding 1
Materials and supplies	—	—	—	
Contracted services	15,620	17,307	(1,687)	Finding 2
Total increased direct costs, G4 through G7	20,117	17,853	(2,264)	
Total increased direct costs, G1 through G7	79,762	67,539	(12,223)	
Indirect costs	532	84	(448)	
Total program costs	\$ 80,294	67,623	\$ (12,671)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		\$ 67,623		

## Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference <sup>1</sup>
<u>Summary: July 1, 1999, through June 30, 2003</u>				
Total increased direct costs, G1 through G7	\$ 654,447	\$ 468,330	\$ (186,117)	
Indirect costs	<u>9,853</u>	<u>3,622</u>	<u>(6,231)</u>	
Total program costs	<u>\$ 664,300</u>	471,952	<u>\$ (192,348)</u>	
Less amount paid by the State		<u>(370,324)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 101,628</u>		

<sup>1</sup> See the Findings and Recommendations section.

# Findings and Recommendations

## **FINDING 1— Unsupported salary and benefit costs, and related indirect costs**

The district did not provide support for \$196,040 in claimed salary and benefit costs for the audit period. The related indirect costs, based on the claimed indirect cost rate for each fiscal year, totaled \$6,231. Specifically, the district did not provide source documents to validate employee hours charged, such as individual activity log sheets, meeting sign-in sheets, and time records. In addition, the district used an incorrect productive hourly rate when computing salaries and benefits for one employee in fiscal year (FY) 2001-02.

The following provides a summary breakdown of unallowable salaries and benefits due to unsupportable hours and an incorrect productive hourly rate:

	Fiscal Year				
	1999-2000	2000-01	2001-02	2002-03	Total
Unsupported hours:					
Component G3—					
Cost of negotiations	\$ (62,595)	\$ (59,030)	\$ (1,911)	\$ (8,745)	\$ (132,281)
Component G4—					
Impasse proceedings	(5,920)	(14,872)	—	—	(20,792)
Component G6—					
Contract administration	(9,863)	(17,871)	(8,001)	(3,951)	(39,686)
Component G7—					
Unfair labor practice charges	—	(2,972)	—	—	(2,972)
Incorrect productive hourly rate:					
Component G3—					
Cost of negotiations	—	—	(309)	—	(309)
Subtotal	(78,378)	(94,745)	(10,221)	(12,696)	(196,040)
Related indirect costs	(2,360)	(3,107)	(316)	(448)	(6,231)
Audit adjustment	<u>\$ (80,738)</u>	<u>\$ (97,852)</u>	<u>\$ (10,537)</u>	<u>\$ (13,144)</u>	<u>\$ (202,271)</u>

*Parameters and Guidelines* requires the claimant to show the classification of the employees involved, the amount of time spent, and their hourly rate.

*Parameters and Guidelines* states that the claimant must support the level of costs claimed and that the claimant will be reimbursed only for the increased costs incurred.

### Recommendation

We recommend the district ensure that all claimed costs are supported by appropriate documentation. Documentation should identify the mandated functions performed and support the actual number of hours devoted to each function.

**FINDING 2—  
Understated contract  
service costs**

The district understated contract services costs by \$9,923 for the period of July 1, 1999, through June 30, 2003.

The following provides a breakdown of allowable and unallowable contract services costs:

	Fiscal Year				Total
	1999-2000	2000-01	2001-02	2002-03	
Contract services costs:					
Component G3	\$ 2,664	\$ (120)	\$ (540)	\$ (1,214)	\$ 790
Components G4 through G7	8,830	(1,182)	(202)	1,687	9,133
Understated/(overstated) costs	<u>\$11,494</u>	<u>\$ (1,302)</u>	<u>\$ (742)</u>	<u>\$ 473</u>	<u>\$ 9,923</u>

For FY 1999-2000, the district understated costs by \$11,494 because it understated attorney billings by \$17,219 and overstated miscellaneous reimbursements included in legal fee billings by \$5,725. The attorney billings submitted in support of claimed costs exceeded what the district claimed. Miscellaneous reimbursements consisted of \$6,960 in overstated consulting fees due to unverifiable hours billed and rates charged, less \$1,235 for understated copy and fax charges.

For FY 2000-01, the district overstated costs by \$1,302 because it understated attorney billings by \$8,195 and overstated miscellaneous reimbursements included in legal fee billings by \$9,497. The attorney billings submitted in support of claimed costs exceeded what the district claimed. Miscellaneous reimbursements consisted of \$9,840 in overstated consulting fees due to unverifiable hours billed and rates charged, less \$343 for understated copy and fax charges.

For FY 2001-02, the district overstated costs by \$742 because attorney billings submitted in support of claimed costs were less than the amount claimed by the district.

For FY 2002-03, the district understated costs by \$473 because attorney billings submitted in support of claimed costs exceeded the amount claimed by the district.

*Parameters and Guidelines* states that the claimant must support the level of costs claimed and that the claimant will be reimbursed only for the increased costs incurred.

**Recommendation**

We recommend the district ensure that all claimed costs are supported by appropriate documentation.

**State Controller's Office  
Division of Audits  
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Sacramento, California 94250-5874**

**<http://www.sco.ca.gov>**